

BAXTER COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2006

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Baxter Community School District
 Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2005 Election)		
Curt Hansen	President	2005
Joyce Christianson	Vice President	2007
Randy Fuchs	Board Member	2006
John Robinson	Board Member	2006
Colette Kunkel	Board Member	2007
Board of Education (After September 2005 Election)		
Curt Hansen	President	2008
Joyce Christianson	Vice President	2007
Randy Fuchs	Board Member	2006
John Robinson	Board Member	2006
Colette Kunkel	Board Member	2007
School Officials		
Neil K. Seales	Superintendent	2006
Susie Bormann	District Secretary/Treasurer and Business Manager	2006

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Certified Public Accountants
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Baxter Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Baxter Community School District, Baxter, Iowa as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Baxter Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

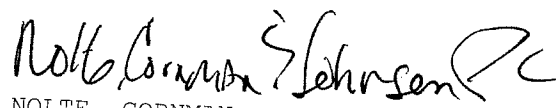
In accordance with Government Auditing Standards, we have also issued our report dated September 14, 2006 on our consideration of the Baxter Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 34 through 35 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Baxter Community School District's basic financial statements. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



NOLTE, CORNMAN & JOHNSON, P.C.

September 14, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Baxter Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$2,732,147 in fiscal 2005 to \$3,096,346 in fiscal 2006, while General Fund expenditures increased from \$2,864,700 in fiscal 2005 to \$2,995,411 in fiscal 2006. This resulted in an increase in the District's General Fund balance from \$471,914 in fiscal 2005 to a balance of \$585,089 in fiscal 2006.
- The increase in General Fund revenues was attributable to an increase in property tax, tuition revenues, and state and federal revenues during fiscal 2006. The increase in expenditures was due primarily to increases in salaries and benefits for District employees during fiscal 2006.
- During fiscal year 2006, the District received a \$400,000 Iowa Demonstration Grant for aiding in paying for construction costs of the new gymnasium and classroom areas to the high school.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Baxter Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Baxter Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Baxter Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1

Baxter Community School District Annual Financial Report

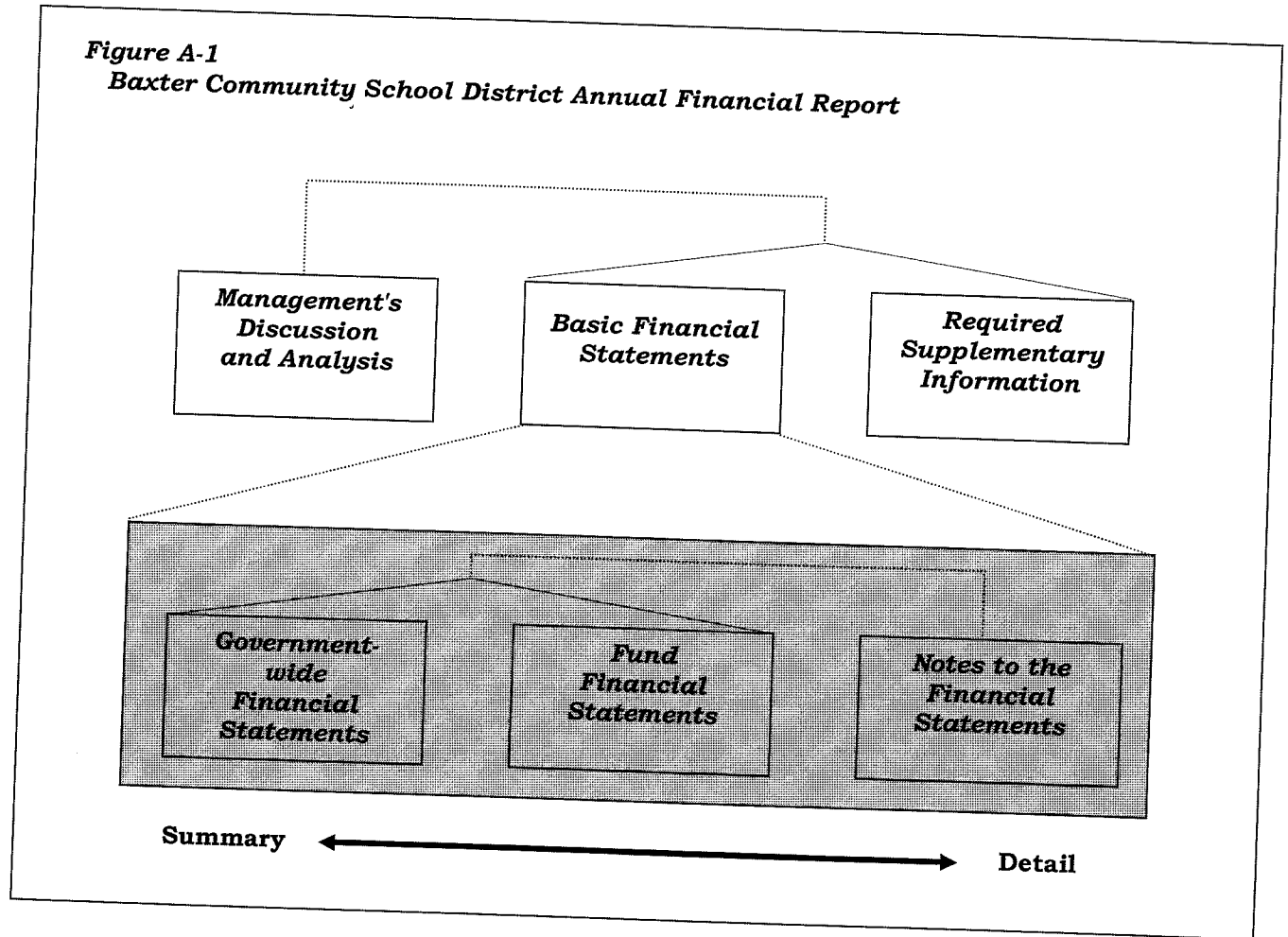


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2

Major Features of the Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund, and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 2,704,045	4,856,780	23,700	15,020	2,727,745	4,871,800	-44.01%
Capital assets	6,558,431	3,178,852	2,250	2,736	6,560,681	3,181,588	106.21%
Total assets	9,262,476	8,035,632	25,950	17,756	9,288,426	8,053,388	15.34%
Long-term obligations	4,128,772	4,088,675	0	0	4,128,772	4,088,675	0.98%
Other liabilities	1,995,278	1,455,892	3,541	3,124	1,998,819	1,459,016	37.00%
Total liabilities	6,124,050	5,544,567	3,541	3,124	6,127,591	5,547,691	10.45%
Net assets:							
Invested in capital assets, net of related debt	2,524,625	1,658,305	2,250	2,736	2,526,875	1,661,041	52.13%
Restricted	104,255	286,238	0	0	104,255	286,238	-63.58%
Unrestricted	509,546	546,522	20,159	11,896	529,705	558,418	-5.14%
Total net assets	\$ 3,138,426	2,491,065	22,409	14,632	3,160,835	2,505,697	26.15%

The District's combined net assets increased by 26.15%, or approximately \$655,138, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased approximately \$181,983 or 63.58% over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day –to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$28,713, or 5.14%.

Figure A-4 shows the changes in net assets for the year ended June 30, 2006 compared to June 30, 2005.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 455,372	425,543	87,494	79,197	542,866	504,740	7.55%
Operating grants and contributions and restricted interest	335,175	307,248	52,120	48,584	387,295	355,832	8.84%
Capital grants and contributions and restricted interest	400,000	870,104	0	0	400,000	870,104	-54.03%
General revenues:							
Property tax	1,238,187	1,101,090	0	0	1,238,187	1,101,090	12.45%
Local option sales tax	173,535	144,666	0	0	173,535	144,666	100.00%
Unrestricted state grants	1,469,997	1,298,426	0	0	1,469,997	1,298,426	13.21%
Other	180,841	23,555	165	146	181,006	23,701	663.71%
Total revenues	4,253,107	4,170,632	139,779	127,927	4,392,886	4,298,559	2.19%
Program expenses:							
Governmental activities:							
Instructional	1,868,994	1,861,564	0	0	1,868,994	1,861,564	0.40%
Support services	1,314,004	1,120,874	0	0	1,314,004	1,120,874	17.23%
Non-instructional programs	0	281	132,002	128,562	132,002	128,843	2.45%
Other expenditures	422,748	358,688	0	0	422,748	358,688	17.86%
Total expenses	3,605,746	3,341,407	132,002	128,562	3,737,748	3,469,969	7.72%
Change in net assets	647,361	829,225	7,777	(635)	655,138	828,590	-20.93%
Net assets beginning of year	2,491,065	1,661,840	14,632	15,267	2,505,697	1,677,107	49.41%
Net assets end of year	\$ 3,138,426	2,491,065	22,409	14,632	3,160,835	2,505,697	26.15%

In fiscal 2006, property tax and unrestricted state grants account for 63.7% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.9% of the revenue from business type activities.

The District's total revenues were approximately \$4.39 million of which \$4.25 million was for governmental activities and less than \$0.14 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 2.19% increase in revenues and a 7.72% increase in expenses. Property tax increased \$137,097 and unrestricted state grants increased \$171,571 to fund increases in expenditures. The increase in expenses related to increases in the negotiated salary and benefits as well as increases in expenses funded by grants received by the District.

Governmental Activities

Revenues for governmental activities were \$4,253,107 and expenses were \$3,605,746.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 1,868,994	1,183,372
Support services	1,314,004	1,312,085
Other expenditures	422,748	(80,258)
Totals	<u>\$ 3,605,746</u>	<u>2,415,199</u>

- The cost financed by users of the District's programs was \$455,372.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$735,175.
- The net cost of governmental activities was financed with \$1,238,187 in property tax, \$173,535 in local option sales tax, \$1,469,997 in unrestricted state grants, and \$180,841 in other general revenues.

Business-Type Activities

Revenues of the District's business-type activities were \$139,779 and expenses were \$132,002. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Baxter Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$568,436, below last year's ending fund balances of a \$3,260,482.

Governmental Fund Highlights

The District's improving General Fund financial position from \$471,914 to \$585,089 is the product of many factors:

- Increases in local source revenues as well as state grant revenues during the year resulted in an increase in revenues that was more than adequate to cover the increase in expenditures.
- The increase in expenditures was less than the increase in revenues resulting in a net increase of \$113,175.
- The Physical Plant and Equipment Levy Fund balance decreased from \$53,128 in fiscal 2005 to \$49,909 in fiscal 2006.
- The Capital Projects Fund balance decreased from \$2,715,762 in fiscal 2005 to a deficit \$92,921 in fiscal 2006. This significant decrease was a result of paying for construction costs related to the addition to the high school.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$14,632 at June 30, 2005 to \$22,409 at June 30, 2006, representing an increase of 53.2%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$72,920 more than budgeted revenues, a variance of 2%. The most significant variance resulted from the District receiving more in local source revenues than originally anticipated.

Originally, total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The district then manages or controls general Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the other expenditures functional area due to the timing of expenditures at year-end without sufficient time to amend the certified budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$6,560,681, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$86,644.

The original cost of the District's capital assets was \$8,317,338. Governmental funds account for \$8,301,026 with the remaining of \$16,312 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$877,498 at June 30, 2005, compared to \$4,467,772 reported at June 30, 2006. This increase resulted from the continuing construction for the addition to the high school.

Figure A-6
Capital Assets, Net of Depreciation

	Capital Assets, Net of Depreciation						
	Governmental		Business-type		Total		Total Change
	Activities		Activities		School District		
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 75,602	75,602	0	0	75,602	75,602	0.00%
Construction in progress	4,467,772	877,498	0	0	4,467,772	877,498	409.15%
Buildings	1,876,391	2,038,589	0	0	1,876,391	2,038,589	-7.96%
Land improvements	74,609	84,450	0	0	74,609	84,450	-11.65%
Machinery and equipment	64,057	102,713	2,250	2,736	66,307	105,449	-37.12%
Total	\$ 6,558,431	3,178,852	2,250	2,736	6,560,681	3,181,588	106.21%

Long-Term Debt

At June 30, 2006, the District had \$4,128,772 in general obligation and other long-term debt outstanding. This represents a increase of 1% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had total outstanding General Obligation Bonds payable of \$3,075,000 at June 30, 2006.

At June 30, 2006, the District had total outstanding Revenue Bonds payable of \$920,000.

The District had the remaining outstanding balance of Capital Loan notes payable from the Special Revenue – Physical Plant and Equipment Levy Fund of \$21,926 at June 30, 2006.

The District had total outstanding Early Retirement payable from the Special Revenue – Management Fund of \$81,421 and total outstanding compensated absences payable from the General Fund of \$30,425 at June 30, 2006.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total
	2006	2005	Change
General Obligation Bonds	\$ 3,075,000	2,965,000	3.7%
Revenue Bonds	920,000	1,015,000	-9.4%
Capital Loan Notes	21,926	42,714	-48.7%
Early Retirement	81,421	65,961	23.4%
Compensated Absences	30,425	0	100.0%
	<u>\$ 4,128,772</u>	<u>4,088,675</u>	<u>1.0%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- District enrollment increased in fiscal year 2006 by 6.3 students. Under Iowa's school funding formula, District funding is highly dependant upon District enrollments. Future enrollment stability is a critical element in maintaining a sound financial foundation for the District.
- Low allowable growth over several years is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sandi Tyler, Board Secretary, Baxter Community School District, 202 East State Street, Baxter, Iowa, 50028.

BASIC FINANCIAL STATEMENTS

BAXTER COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 1,193,181	21,382	1,214,563
Receivables:			
Property tax:			
Delinquent	14,983	0	14,983
Succeeding year	1,176,193	0	1,176,193
Income surtax	127,602	0	127,602
Due from other governments	140,551	0	140,551
Inventories	0	2,318	2,318
Bond discounts and bond issue costs	51,535	0	51,535
Capital assets, net of accumulated depreciation (Note 4)	6,558,431	2,250	6,560,681
TOTAL ASSETS	9,262,476	25,950	9,288,426
LIABILITIES			
Accounts payable	759,597	0	759,597
Salaries and benefits payable	5,572	0	5,572
Interest payable	38,806	0	38,806
Deferred revenue:			
Succeeding year property tax	1,176,193	0	1,176,193
Other	15,110	3,541	18,651
Long-term liabilities (Note 5):			
Portion due within one year:			
General obligation bonds payable	150,000	0	150,000
Revenue bonds payable	100,000	0	100,000
Capital loan notes payable	21,926	0	21,926
Early retirement payable	19,021	0	19,021
Compensated absences payable	30,425	0	30,425
Portion due after one year:			
General obligation bonds payable	2,925,000	0	2,925,000
Revenue bonds payable	820,000	0	820,000
Early retirement payable	62,400	0	62,400
TOTAL LIABILITIES	6,124,050	3,541	6,127,591
NET ASSETS			
Investment in capital assets, net of related debt	2,524,625	2,250	2,526,875
Restricted for:			
Physical plant and equipment levy	27,983	0	27,983
Other special revenue purposes	76,272	0	76,272
Unrestricted	509,546	20,159	529,705
TOTAL NET ASSETS	\$ 3,138,426	22,409	3,160,835

SEE NOTES TO FINANCIAL STATEMENTS.

BAXTER COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
Governmental activities:							
Instruction:							
Regular instruction	\$ 1,322,836	385,245	213,992	0	(723,599)	0	(723,599)
Special instruction	203,249	68,208	18,177	0	(116,864)	0	(116,864)
Other instruction	342,909	0	0	0	(342,909)	0	(342,909)
	1,868,994	453,453	232,169	0	(1,183,372)	0	(1,183,372)
Support services:							
Student services	83,900	0	0	0	(83,900)	0	(83,900)
Instructional staff services	122,060	0	0	0	(122,060)	0	(122,060)
Administration services	585,297	0	0	0	(585,297)	0	(585,297)
Operation and maintenance of plant services	349,733	0	0	0	(349,733)	0	(349,733)
Transportation services	173,014	1,919	0	0	(171,095)	0	(171,095)
	1,314,004	1,919	0	0	(1,312,085)	0	(1,312,085)
Other expenditures:							
Facilities and acquisitions	89,507	0	0	400,000	310,493	0	310,493
Long-term debt interest	164,597	0	0	0	(164,597)	0	(164,597)
AEA flowthrough	103,006	0	103,006	0	0	0	0
Depreciation (unallocated)*	65,638	0	0	0	(65,638)	0	(65,638)
	422,748	0	103,006	400,000	80,258	0	80,258
Total governmental activities	3,605,746	455,372	335,175	400,000	(2,415,199)	0	(2,415,199)
Business-Type activities:							
Non-instructional programs:							
Nutrition services	132,002	87,494	52,120	0	0	7,612	7,612
Total business-type activities	132,002	87,494	52,120	0	0	7,612	7,612
Total	\$ 3,737,748	542,866	387,295	400,000	(2,415,199)	7,612	(2,407,587)
General Revenues:							
Local tax for:							
General purposes					\$ 902,378	0	902,378
Debt Service					267,808	0	267,808
Capital outlay					68,001	0	68,001
Local option sales and services tax					173,535	0	173,535
Unrestricted state grants					1,469,997	0	1,469,997
Unrestricted investment earnings					52,315	165	52,480
Other					128,526	0	128,526
Total general revenues					3,062,560	165	3,062,725
Changes in net assets					647,361	7,777	655,138
Net assets beginning of year					2,491,065	14,632	2,505,697
Net assets end of year					\$ 3,138,426	22,409	3,160,835

* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO FINANCIAL STATEMENTS.

BAXTER COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Capital Projects	Other Governmental Funds	Total
ASSETS				
Cash and pooled investments	\$ 497,855	624,221	71,105	1,193,181
Receivables:				
Property tax				
Delinquent	9,820	0	5,163	14,983
Succeeding year	753,019	0	423,174	1,176,193
Income surtax	106,335	0	21,267	127,602
Due from other governments	105,530	35,021	0	140,551
TOTAL ASSETS	\$ 1,472,559	659,242	520,709	2,652,510
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 7,434	752,163	0	759,597
Salaries and benefits payable	5,572	0	0	5,572
Deferred revenue:				
Succeeding year property tax	753,019	0	423,174	1,176,193
Income surtax	106,335	0	21,267	127,602
Other	15,110	0	0	15,110
Total liabilities	887,470	752,163	444,441	2,084,074
Unreserved fund balances:	585,089	(92,921)	76,268	568,436
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,472,559	659,242	520,709	2,652,510

SEE NOTES TO FINANCIAL STATEMENTS.

BAXTER COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2006

Total fund balances of governmental funds (page 15)	\$ 568,436
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	6,558,431
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.	127,602
Bond issue costs and bond discounts are an expense when incurred in the governmental funds, but are capitalized and amortized over the life of the bonds for the government-wide financial statements.	51,535
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(38,806)
Long-term liabilities, including general obligation bonds, revenue bonds, capital loan notes, compensated absences, and early retirement are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(4,128,772)
Net assets of governmental activites (page 13)	\$ <u>3,138,426</u>

SEE NOTES TO FINANCIAL STATEMENTS.

BAXTER COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General	Capital Projects	Other Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 836,560	173,535	397,768	1,407,863
Tuition	333,183	0	0	333,183
Other	121,646	82,663	98,721	303,030
State sources	1,694,867	0	215	1,695,082
Federal sources	110,090	400,000	0	510,090
Total revenues	3,096,346	656,198	496,704	4,249,248
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	1,274,430	0	31,288	1,305,718
Special instruction	203,249	0	0	203,249
Other instruction	267,967	0	74,942	342,909
	1,745,646	0	106,230	1,851,876
Support services:				
Student services	83,375	0	0	83,375
Instructional staff services	122,060	0	0	122,060
Administration services	488,967	66,146	0	555,113
Operation and maintenance of plant services	305,576	0	42,641	348,217
Transportation services	146,781	0	9,171	155,952
	1,146,759	66,146	51,812	1,264,717
Other expenditures:				
Facilities acquisitions	0	3,524,128	43,356	3,567,484
Long-term debt:				
Principal	0	0	265,788	265,788
Interest and fiscal charges	0	512	160,151	160,663
AEA flowthrough	103,006	0	0	103,006
	103,006	3,524,640	469,295	4,096,941
Total expenditures	2,995,411	3,590,786	627,337	7,213,534
Excess(deficiency) of revenues over(under) expenditures	100,935	(2,934,588)	(130,633)	(2,964,286)
OTHER FINANCING SOURCES(USES):				
Sale of equipment	12,240	0	0	12,240
Operating transfer in	0	0	156,913	156,913
Operating transfer out	0	(134,095)	(22,818)	(156,913)
General obligation bonds issued	0	260,000	0	260,000
Total other financing sources(uses)	12,240	125,905	134,095	272,240
Net change in fund balances	113,175	(2,808,683)	3,462	(2,692,046)
Fund balance beginning of year	471,914	2,715,762	72,806	3,260,482
Fund balance end of year	\$ 585,089	(92,921)	76,268	568,436

SEE NOTES TO FINANCIAL STATEMENTS.

BAXTER COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds (page 17) \$ (2,692,046)

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital outlay expenditures in the current year are as follows:

Expenditures for capital assets	\$ 3,590,274	
Depreciation expense	(86,158)	3,504,116

The proceeds from the sale of equipment (\$12,240) are reported as revenue in the governmental funds. However, the cost of the equipment as well as the corresponding depreciation (\$112,297) is removed from the capital assets account in the Statement of Net Assets and offset against the sale proceeds resulting in a "loss on disposal of equipment" which is reported within the government-type expenses. Thus, more revenue is reported in the governmental funds than the Statement of Activities. (124,537)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.

	(260,000)	
Issued	265,788	5,788
Repaid		

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. (182)

Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds. 3,859

Bond issue costs and bond discounts are reported as expenses in the fund financial statements, but are capitalized and amortized over the life of the bonds for the government-wide financial statements. (3,752)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore are not reported as expenditures in the governmental funds, as follows:

Early Retirement	(15,460)	
Compensated Absences	(30,425)	(45,885)

Changes in net assets of governmental activities (page 14) \$ 647,361

SEE NOTES TO FINANCIAL STATEMENTS.

BAXTER COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006

	School Nutrition
ASSETS	
Cash and pooled investments	\$ 21,382
Inventories	2,318
Capital assets, net of accumulated depreciation (Note 4)	2,250
TOTAL ASSETS	<u>25,950</u>
LIABILITIES	
Deferred revenues:	
Other	3,541
TOTAL LIABILITIES	<u>3,541</u>
NET ASSETS	
Investment in capital assets, net of related debt	2,250
Unrestricted	20,159
TOTAL NET ASSETS	<u><u>\$ 22,409</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

BAXTER COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 87,494
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	44,281
Benefits	16,239
Services	1,265
Supplies	69,224
Other	507
Depreciation	486
TOTAL OPERATING EXPENSES	<u>132,002</u>
OPERATING LOSS	<u>(44,508)</u>
NON-OPERATING REVENUES:	
State sources	2,259
Federal sources	49,861
Interest income	165
TOTAL NON-OPERATING REVENUES	<u>52,285</u>
Change in net assets	7,777
Net assets beginning of year	<u>14,632</u>
Net assets end of year	<u>\$ 22,409</u>

SEE NOTES TO FINANCIAL STATEMENTS.

BAXTER COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 88,219
Cash received from miscellaneous sources	30
Cash payments to employees for services	(60,520)
Cash payments to suppliers for goods or services	(65,933)
Net cash used in operating activities	<u>(38,204)</u>
Cash flows from non-capital financing activities:	
State grants received	2,259
Federal grants received	44,677
Net cash provided by non-capital financing activities	<u>46,936</u>
Cash flows from investing activities:	
Interest on investments	<u>165</u>
Net increase in cash and cash equivalents	8,897
Cash and cash equivalents at beginning of year	<u>12,485</u>
Cash and cash equivalents at end of year	<u><u>\$ 21,382</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (44,508)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	5,184
Depreciation	486
Increase in inventories	(121)
Decrease in accounts receivable	338
Increase in deferred revenue	417
Net cash used in operating activities	<u><u>\$ (38,204)</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u><u>\$ 21,382</u></u>
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	
During the year ended June 30, 2006, the District received Federal commodities valued at \$5,184.	

SEE NOTES TO FINANCIAL STATEMENTS.

BAXTER COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

(1) **Summary of Significant Accounting Policies**

The Baxter Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Baxter, Iowa, and the predominate agricultural territory in Jasper and Marshall Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Baxter Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Baxter Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Jasper and Marshall Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary funds:

The District's proprietary funds are the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to

customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 0
Buildings	5,000
Land improvements	5,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	5,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	25-50 years
Land improvements	20-30 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures in the other expenditures functional area exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2006 were entirely covered by Federal depository insurance or by the State Sinking Funds in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. The certificates of deposit are classified as Category 1, which means the investments are insured or registered or the securities are held by the District or its agent in the District's name. Certificates of deposit are stated at fair value.

At June 30, 2006, the District had investments in Certificates of deposit over one year as follows:

	Fair Value
Certificates of deposit	\$ 102,017

(3) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Special Revenue: Physical Plant and Equipment Levy	\$ 22,818
Debt Service	Capital Projects	134,095
Total		\$ 156,913

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 75,602	0	0	75,602
Construction in progress	877,498	3,590,274	0	4,467,772
Total capital assets not being depreciated	953,100	3,590,274	0	4,543,374
Capital assets being depreciated:				
Buildings	3,012,423	0	140,000	2,872,423
Land improvements	294,445	0	0	294,445
Machinery and equipment	644,729	0	53,945	590,784
Total capital assets being depreciated	3,951,597	0	193,945	3,757,652
Less accumulated depreciation for:				
Buildings	973,834	55,797	33,599	996,032
Land improvements	209,995	9,841	0	219,836
Machinery and equipment	542,016	20,520	35,809	526,727
Total accumulated depreciation	1,725,845	86,158	69,408	1,742,595
Total capital assets being depreciated, net	2,225,752	(86,158)	124,537	2,015,057
Governmental activities capital assets, net	\$ 3,178,852	3,504,116	124,537	6,558,431

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 34,324	0	18,012	16,312
Less accumulated depreciation	31,588	486	18,012	14,062
Business-type activities capital assets, net	<u>\$ 2,736</u>	<u>(486)</u>	<u>0</u>	<u>2,250</u>

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 1,658
Support services:		
Student		525
Operation and maintenance of plant		1,275
Transportation		17,062
		<u>20,520</u>
Unallocated depreciation		<u>65,638</u>
Total governmental activities depreciation expense		<u>\$ 86,158</u>
Business-type activities:		
Food services		\$ 486
Total business-type activities depreciation expense		<u>\$ 486</u>

(5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General Obligation Bonds	\$ 2,965,000	260,000	150,000	3,075,000	150,000
Revenue Bonds	1,015,000	0	95,000	920,000	100,000
Capital Loan Notes	42,714	0	20,788	21,926	21,926
Early Retirement	65,961	29,621	14,161	81,421	19,021
Compensated Absences	0	30,425	0	30,425	30,425
	<u>\$ 4,088,675</u>	<u>320,046</u>	<u>279,949</u>	<u>4,128,772</u>	<u>321,372</u>

General Obligation Bonds Payable

Details of the District's June 30, 2006 general obligation bonded debt is as follows:

Year Ending June 30,	Bond issue of July 1, 2001				
	Interest Rates	Principal	Interest	Total	
2007	-	% \$ 0	75,095	75,095	
2008	-	0	75,095	75,095	
2009	-	0	75,095	75,095	
2010	-	0	75,095	75,095	
2011	-	0	75,095	75,095	
2012	-	0	75,095	75,095	
2013	-	0	75,095	75,095	
2014	4.25	65,000	75,095	140,095	
2015	4.40	125,000	72,333	197,333	
2016	4.50	130,000	66,833	196,833	
2017	4.60	135,000	60,983	195,983	
2018	4.70	145,000	54,773	199,773	
2019	4.80	150,000	47,958	197,958	
2020	4.90	155,000	40,758	195,758	
2021	5.00	165,000	33,163	198,163	
2022	5.00	170,000	24,913	194,913	
2023	5.05	160,000	16,413	176,413	
2024	5.05	165,000	8,333	173,333	
Subtotal		\$ 1,565,000	1,027,220	2,592,220	

Year Ending June 30,	Bond issue of June 1, 2006				
	Interest Rates	Principal	Interest	Total	
2007	4.50	% \$ 0	11,930	11,930	
2008	4.50	0	11,700	11,700	
2009	4.50	0	11,700	11,700	
2010	4.50	0	11,700	11,700	
2011	4.50	0	11,700	11,700	
2012	4.50	0	11,700	11,700	
2013	4.50	0	11,700	11,700	
2014	4.50	35,000	11,700	46,700	
2015	4.50	70,000	10,126	80,126	
2016	4.50	75,000	6,976	81,976	
2017	4.50	80,000	3,600	83,600	
Subtotal		\$ 260,000	114,532	374,532	

Year Ending June 30,	Bond issue of May 1, 2003				
	Interest Rates	Principal	Interest	Total	
2007	2.00	% \$ 150,000	39,845	189,845	
2008	2.40	150,000	36,245	186,245	
2009	2.70	160,000	32,195	192,195	
2010	3.20	165,000	27,395	192,395	
2011	3.40	170,000	22,115	192,115	
2012	3.60	180,000	16,335	196,335	
2013	3.80	185,000	10,035	195,035	
2014	4.00	90,000	3,375	93,375	
Subtotal		\$ 1,250,000	187,540	1,437,540	
Total		\$ 3,075,000	1,329,292	4,404,292	

Revenue Bonds Payable

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District. The bonds are not a general obligation of the District. The debt, however, is subject to the constitutional debt limitation of the District.

Year Ending June 30,	Bond issue of July 1, 2004				
	Interest Rates		Principal	Interest	Total
2007	3.00	% \$	100,000	35,125	135,125
2008	3.30		105,000	32,125	137,125
2009	3.60		110,000	28,660	138,660
2010	3.75		110,000	24,700	134,700
2011	4.00		115,000	20,575	135,575
2012	4.10		120,000	15,975	135,975
2013	4.20		125,000	11,055	136,055
2014	4.30		135,000	5,805	140,805
Total			\$ 920,000	174,020	1,094,020

The resolution providing for the issuance of the local option sales and services revenue bonds include the following provisions:

- The bonds will only be redeemed from the future earning of the local option sales tax revenues received by the District and the bondholders hold a lien on the future revenues received.
- Bonds maturing after January 1, 2011, may be called for redemption by the issuer and paid before maturity on said date or any date thereafter.
- \$110,000 of the proceeds from the bond issue have been placed in a reserve account with a trustee. The reserve account may be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The reserve account is part of the District's Capital Projects Fund.
- Proceeds from the local option sales and services tax shall be placed in a revenue account with a trustee. The trustee will make monthly transfers from the revenue account to the sinking account. Money in the sinking account shall be used to pay the interest and principal on the bonds. Any surplus monies remaining in the revenue fund may be used for any lawful purpose for which the local option sales tax may be used or may be used to redeem the bonds in accordance with their terms. The sinking fund is part of the Capital Projects Fund.

Capital Loan Notes

On January 10, 2000, the District issued \$140,000 of capital loan energy notes. The remaining balance of the notes will be paid from the Special Revenue, Physical Plant and Equipment Levy Fund. Maturities and interest rates of the remaining notes outstanding at June 30, 2006 are as follows:

Year					
Ending	Interest				
June 30,	Rate	Principal	Interest	Total	
2007	5.40	% \$ 21,926	892	22,818	

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. Early retirement incentives include a cash payment based on a percentage of current salary and the payment by the District of up to \$200 per month for health insurance premiums. At June 30, 2006, the District had obligations to five participants with a total liability of \$81,421. Early retirement benefits paid during the year ended June 30, 2006 totaled \$14,161.

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$110,974, \$106,383, and \$101,291, respectively, equal to the required contributions for each year.

(7) Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$103,006 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Construction Commitment

The District has entered into contracts totaling \$4,716,285 for an addition to the school building in Baxter. As of June 30, 2006, costs of \$4,467,772 had been incurred against the contract. The balance of \$248,513 remaining at June 30, 2006 will be paid as work on the project progresses.

(10) Negative Account Balances

As of the year ended June 30, 2006, the District's Capital Projects Fund had a deficit fund balance of \$92,921, Management Fund had a deficit fund balance of \$12,230, and the Debt Service Fund had a deficit fund balance of \$37,683.

(11) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2006, disbursements in the other expenditures functional area exceeded the amount budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

BAXTER COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUND
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Original	Final	Final to Actual Variance
Revenues:						
Local sources	\$ 2,044,076	87,659	2,131,735	1,979,760	1,979,760	151,975
State sources	1,695,082	2,259	1,697,341	1,706,347	1,706,347	(9,006)
Federal sources	510,090	49,861	559,951	630,000	630,000	(70,049)
Total revenues	4,249,248	139,779	4,389,027	4,316,107	4,316,107	72,920
Expenditures:						
Instruction	1,851,876	0	1,851,876	2,187,135	2,187,135	335,259
Support services	1,264,717	0	1,264,717	1,311,300	1,311,300	46,583
Non-instructional programs	0	132,002	132,002	169,000	169,000	36,998
Other expenditures	4,096,941	0	4,096,941	3,678,082	3,678,082	(418,859)
Total expenditures	7,213,534	132,002	7,345,536	7,345,517	7,345,517	(19)
Excess(deficiency) of revenues over(under) expenditures	(2,964,286)	7,777	(2,956,509)	(3,029,410)	(3,029,410)	72,901
Other financing sources, net	272,240	0	272,240	2,000	2,000	270,240
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing sources	(2,692,046)	7,777	(2,684,269)	(3,027,410)	(3,027,410)	343,141
Balances beginning of year	3,260,482	14,632	3,275,114	3,207,674	3,207,674	67,440
Balances end of year	\$ 568,436	22,409	590,845	180,264	180,264	410,581

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BAXTER COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2006, expenditures in the other expenditures functional area exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

BAXTER COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

	Special Revenue Funds					Total
	Manage- ment Levy	Physical Plant and Equipment Levy	Student Activity	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
ASSETS						
Cash and pooled investments	\$ (13,077)	49,265	76,272	112,460	(41,355)	71,105
Receivables:						
Property tax:						
Delinquent	847	644	0	1,491	3,672	5,163
Succeeding year property tax	95,000	48,209	0	143,209	279,965	423,174
Income surtax	0	21,267	0	21,267	0	21,267
TOTAL ASSETS	\$ 82,770	119,385	76,272	278,427	242,282	520,709
LIABILITIES AND FUND BALANCES						
Liabilities:						
Deferred revenue:						
Succeeding year property tax	95,000	48,209	0	143,209	279,965	423,174
Income surtax	0	21,267	0	21,267	0	21,267
Total liabilities	95,000	69,476	0	164,476	279,965	444,441
Unreserved fund balances	(12,230)	49,909	76,272	113,951	(37,683)	76,268
TOTAL LIABILITIES AND FUND BALANCES	\$ 82,770	119,385	76,272	278,427	242,282	520,709

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BAXTER COMMUNITY SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	Special Revenue Funds					Total
	Physical Plant and Equipment Levy	Student Activity	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds	
REVENUES:						
Local sources:						
Local tax	\$ 61,959	68,001	0	129,960	267,808	397,768
Other	1	1,263	93,075	94,339	4,382	98,721
State sources	34	27	0	61	154	215
TOTAL REVENUES	61,994	69,291	93,075	224,360	272,344	496,704
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	24,952	6,336	0	31,288	0	31,288
Other instruction	0	0	74,942	74,942	0	74,942
Operation and maintenance of plant services	42,641	0	0	42,641	0	42,641
Transportation services	9,171	0	0	9,171	0	9,171
Other expenditures:						
Facilities acquisition	0	43,356	0	43,356	0	43,356
Long-term debt:						
Principal	0	0	0	0	265,788	265,788
Interest and fiscal charges	0	0	0	0	160,151	160,151
TOTAL EXPENDITURES	76,764	49,692	74,942	201,398	425,939	627,337
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	(14,770)	19,599	18,133	22,962	(153,595)	(130,633)
OTHER FINANCING SOURCES(USES):						
Operating transfer in	0	0	0	0	156,913	156,913
Operating transfer out	0	(22,818)	0	(22,818)	0	(22,818)
TOTAL OTHER FINANCING SOURCES	0	(22,818)	0	(22,818)	156,913	134,095
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES AND OTHER FINANCING SOURCES(USES)	(14,770)	(3,219)	18,133	144	3,318	3,462
FUND BALANCE BEGINNING OF YEAR	2,540	53,128	58,139	113,807	(41,001)	72,806
FUND BALANCE END OF YEAR	\$ (12,230)	49,909	76,272	113,951	(37,683)	76,268

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BAXTER COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Drama	\$ 684	0	798	(114)
Vocal music	10,811	6,824	8,969	8,666
Instrumental music	6,389	8,329	6,882	7,836
Swalwell athletic donation	3,493	1,258	0	4,751
Playground	7,127	13,037	1,500	18,664
Cheerleading	1,974	0	64	1,910
Pacesetters	190	0	25	165
Student council	864	3,641	2,956	1,549
Class of 2010	867	0	0	867
Class of 2006	292	3,592	3,458	426
Class of 2007	2,309	5,079	6,314	1,074
Class of 2008	1,226	0	0	1,226
Class of 2009	71	0	0	71
Athletics	2,224	12,545	9,870	4,899
Science club	1,296	92	394	994
Historian society	1	0	0	1
Honor society	231	0	0	231
SAAD	197	0	1	196
Weight club	30	0	0	30
Sixth grade	75	842	658	259
Fourth grade	28	1,394	1,392	30
Art club	668	0	44	624
Luther football	20	1,360	1,788	(408)
Interest	10,892	351	0	11,243
Annual	4,133	11,208	8,079	7,262
Special activities	1,855	1,176	21	3,010
CMB shared athletics	(2,320)	7,580	1,226	4,034
CMB boys basketball	1,329	1,126	71	2,384
CMB football	(2,043)	4,491	10,016	(7,568)
CMB baseball	(1,476)	1,001	3,052	(3,527)
CMB boys track	(451)	1,864	1,834	(421)
CMB wrestling	517	264	0	781
CMB girls basketball	1,549	632	399	1,782
CMB volleyball	2,378	1,361	714	3,025
CMB softball	896	720	0	1,616
CMB girls track	(292)	2,397	3,528	(1,423)
CMB soccer	712	911	0	1,623
Cross country	(607)	0	889	(1,496)
Total	\$ 58,139	93,075	74,942	76,272

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BAXTER COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2006	2005	2004	2003
Revenues:					
Local sources:					
Local tax	\$	1,407,863	1,254,508	1,264,146	1,119,958
Tuition		333,183	301,927	322,783	256,185
Other		303,030	1,005,798	141,647	190,428
State sources		1,695,082	1,495,322	1,414,577	1,323,778
Federal sources		510,090	103,111	99,220	109,738
Total	\$	4,249,248	4,160,666	3,242,373	3,000,087
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$	1,305,718	1,301,060	1,218,443	1,205,398
Special instruction		203,249	184,931	224,890	210,302
Other instruction		342,909	359,441	302,734	279,354
Support services:					
Student services		83,375	78,838	74,863	57,568
Instructional staff services		122,060	112,324	102,358	116,775
Administration services		555,113	473,409	442,879	438,322
Operation and maintenance of plant services		348,217	289,695	271,323	263,680
Transportation services		155,952	145,956	137,455	168,145
Non-instructional programs:		0	281	227	187
Other expenditures:					
Facilities acquisitions		3,567,484	902,055	18,494	10,730
Long-term debt:					
Principal		265,788	209,710	118,687	102,351
Interest and fiscal charges		160,663	170,417	94,936	112,717
AEA flow-through		103,006	92,979	91,946	93,886
Total	\$	7,213,534	4,321,096	3,099,235	3,059,415

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BAXTER COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DONATIONS (non-cash)	10.550	FY 06	\$ 5,184
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 06	6,063
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 06	38,614
			<u>44,677</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1093-G	<u>22,515</u>
SPECIAL EDUCATION - GRANTS TO STATES(PART B)	84.027	FY 06	<u>18,177</u>
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 06	<u>2,182</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 06	<u>1,291</u>
FUND FOR THE IMPROVEMENT OF EDUCATION(IOWA DEMONSTRATION GRANT)	84.215	FY 06	<u>400,000</u>
STATE GRANTS FOR INNOVATIVE PROGRAMS(TITLE V PROGRAM)	84.298	FY 06	<u>940</u>
SMALL RURAL SCHOOL ACHIEVEMENT PROGRAM(REAP)	84.358	FY 06	<u>23,880</u>
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 06	<u>9,409</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES(TITLE VIA)	84.369	FY 06	<u>2,388</u>
TOTAL			<u>\$ 530,643</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Baxter Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of the
Baxter Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Baxter Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 14, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Baxter Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Baxter Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do

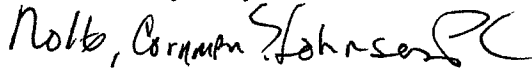
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not express an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Baxter Community School District and other parties to whom Baxter Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Baxter Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

September 14, 2006

NOLTE, CORNMAN & JOHNSON P.C.

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Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

To the Board of Education of the
Baxter Community School District:

Compliance

We have audited the compliance of Baxter Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Baxter Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Baxter Community School District's management. Our responsibility is to express an opinion on Baxter Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Baxter Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Baxter Community School District's compliance with those requirements.

In our opinion, Baxter Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Baxter Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Baxter Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that,

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in our judgment, could adversely affect Baxter Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable condition is described as item III-A-06 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe item III-A-06 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Baxter Community School District and other parties to whom Baxter Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.


NOLTE, CORNMAN & JOHNSON, P.C.

September 14, 2006

BAXTER COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part I: Summary of the Independent Auditor's Report

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 84.215 - Fund for the Improvement of Education (Iowa Demonstration Grant)
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Baxter Community School District did not qualify as a low-risk auditee.

BAXTER COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-06 Segregation of Duties - The limited number of personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities, such as recording and processing cash receipts, preparing checks and bank reconciliations, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability, although we noted the District had taken steps to segregate duties between the present personnel. This is not an unusual condition but it is important the District officials are aware that the condition exists.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - The District is aware of the lack of complete segregation of duties and will make changes as the opportunity arises.

Conclusion - Response accepted.

II-B-06 Student Activity Fund - We noted during our audit that the Student Activity fund included an interest account and the interest earned during the year was not allocated.

Recommendation - The interest earned each year should be allocated out at on an annual basis to the individual activity accounts.

Response - Interest earned during fiscal 2006 was allocated after the audit date. In the future, interest will be allocated around June 30th.

Conclusion - Response accepted.

II-C-06 Student Activity Funds - During our audit issues arose about certain expenditures paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The Student Activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in Department of Education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended.

Recommendation - The purpose of the Student Activity fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as part of the education program for the students established under Iowa Administrative Code 281-12.6(1).

More specifically, the monies collected or fundraised for the purpose of new playground equipment should be placed in the fund that is most appropriate for this type of expenditure, namely, the General Fund or the PPEL Fund.

The District should review expenditures made from the Special Activities account. If expenditures do not meet the guidelines mentioned above, the account should be closed and the monies moved to the fund where they can be properly expended.

Response - We are reviewing expenditures from the Special Activities account and will adjust as needed. The playground equipment account has been moved from the Activity Fund to the General Fund.

Conclusion - Response accepted.

II-D-06 Gate Admissions - The gate admissions were not reconciled to pre-numbered tickets.

Recommendation - The District should establish reconciliation procedures for gate admissions. The reconciliation should include the issuance of pre-numbered tickets and the reconciling of the admissions to the number of tickets issued.

Response - We will comply.

Conclusion - Response accepted.

II-E-06 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliations of the General, Activity, and Nutrition Funds which have been outstanding for over a year.

Recommendation - The District should research the outstanding checks to determine if they should be reissued, voided or submitted to the Treasurer of Iowa as unclaimed property.

Response - The checks from these funds have been researched and have been handled in the most appropriate manner.

Conclusion - Response accepted.

II-F-06 Payroll Procedures - We noted during our audit that the District is not keeping track of hours worked for coaches who are non-certified staff.

Recommendation - In order to comply with the Department of Labor requirements on wage per hour contracts, the District needs to keep track of the hours worked for non-certified staff coaches.

Response - We have implemented procedures for coaches who are non-certified staff to keep timesheets.

Conclusion - Response accepted.

II-G-06 Purchase Orders - We noted during our audit that purchase orders in the Activity Fund were dated after the invoices. We also noted in the Activity Fund that three disbursements made had no invoice to go with the purchase orders and purchase orders were being hand numbered. Purchase orders are typically used to document approval prior to the purchase as well as documenting which account will be paying for the invoice.

Recommendation - The District should ensure that purchase procedures are followed and all documentation is retained. The purchase order when properly completed provides a document which shows authorization of order and which line item account will be affected. By properly using the purchase order system, the District may be able to more easily track budgeted expenditures and encumbered amounts toward the specific items.

Response - We have been working with staff to make sure that purchase orders are filled out properly before the purchase of items.

Conclusion - Response accepted.

II-H-06 Retained Check Images - We noted during the audit that the District is receiving photo copies of canceled checks rather than the original canceled checks. According to Iowa Code Chapter 554D.1114, if the District wants to receive photo copy images of canceled checks, both the front and back of the canceled checks should be retained by the District.

Recommendation - The District should request that the bank supply the District with photo images of checks that contain the image on the front as well as the image on the back of each canceled check.

Response - We have contacted the bank and have been told that the District will begin receiving photo copy images of check fronts and backs beginning in April 2007.

Conclusion - Response accepted.

BAXTER COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

CFDA Number 84.215 -Fund for the Improvement of Education (Iowa Demonstration Grant)

Federal Award Year: 2006

U.S. Department of Education

Passed through the Iowa Department of Education

III-A-06 Segregation of Duties - The limited number of personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities, such as recording and processing cash receipts, preparing checks and bank reconciliations, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability, although we noted the District had taken steps to segregate duties between the present personnel. This is not an unusual condition but it is important the District officials are aware that the condition exists.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - The District is aware of the lack of complete segregation of duties and will make changes as the opportunity arises.

Conclusion - Response accepted.

BAXTER COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part IV: Other Findings Related to Statutory Reporting

- IV-A-06 Certified Budget - District disbursements for the year ended June 30, 2006, exceeded the certified budget amount in the other expenditures functional area.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - In the future the budget will be monitored more closely and amended when necessary.

Conclusion - Response accepted.

- IV-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- IV-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- IV-D-06 Business Transactions - No business transactions between the District and District officials were noted.

- IV-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- IV-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

- IV-G-06 Certified Enrollment - We noted a variance in Line 1 of the basic enrollment data certified to the Department of Education. The number of resident students was understated by 1.1.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - The Department of Education and the Department of Management have been contacted and the matter is resolved.

Conclusion - Response accepted.

- IV-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

- IV-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

IV-J-06 Financial Condition - The District had several accounts with deficit balances totaling \$14,957 in the Student Activity Fund as of June 30, 2006. Capital Projects Fund had a deficit fund balance of \$92,921, Management Fund had a deficit fund balance of \$12,230, and the Debt Service Fund had a deficit fund balance of \$37,683.

Recommendation - The District should monitor these funds and investigate alternatives to eliminate these deficits.

Response - The District will work to get the balances of these accounts positive by the end of fiscal 2007.

Conclusion - Response accepted.